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REPLY TO:

Auditor General  
Comptroller, USAF  
Eastern District  
Liaison Office  
P. O. Box 5155, S.W. Station  
Washington, D. C.

12 March 1959

SUBJECT: Advisory Report on Review of Proposed Rates  
Period: 1 February 1959 to 30 June 1959  
Hycon Mfg. Company  
Pasadena, California  
Contract No. HF-CT-695  
Contract No. BC-450  
Contract No. OS-500

TO : Contracting Officer

REF : Document Nos. DDP-6231-59 and 342 (HF-CT-695)  
Contractor's Letter No. LA-534 (BC-450)

1. An examination has been made of the contractor's records to determine the reasonableness of the proposed rates under the subject contracts, for the period 1 February 1959 to 30 June 1959. No recommendations are included which relate to the proposed 10% profit factor, which is subject to approval by the Contracting Officer.

2. The results of the examination are as follows:

(a) Hourly Direct Labor Rates. Tests indicated that the proposed labor rates were reasonable. As a result, they were favorably commented on at the March 2d conference, and are recommended for acceptance by the auditor.

(b) Maintenance and Overhaul Burden. Extensive tests were made of the proposed M & O Burden rates, giving cognizance to the contractor's recent labor reclassifications and current experience. As a result, the contractor's proposed rate of 155% is recommended for acceptance.

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- (c) Shop Burden. (Not applicable to OS-500). The contractor's proposed rate of 160% is recommended for acceptance, based on an experienced rate of 188% for the fiscal year ended 31 January 1959. Contracts recently awarded to the Electronics Division (where the above assist-type shop labor is performed), should lower this rate appreciably. However, in the initial stages, it is anticipated that Engineering will generate most of the costs. Consequently the Shop will not receive the full impact of the new business until later in the year.
- (d) General and Administrative Expense. The contractor's book rate for the fiscal year ended 31 January 1959 is 18.2%. Inasmuch as no data is available for the current year to date, it is the opinion of the auditor that the customer's interests will be sufficiently protected by acceptance of the proposed 16% rate.
- (e) Burden on Material and Purchased Parts - (Material Handling)  
(Not applicable to Contract No. OS-500.) In view of the contractor's book rate of 20.7% for the fiscal year ended 31 January 1959, the proposed 14% rate is recommended for acceptance.

3. Auditor's Comments. The following comments are for the record and for the information of the Contracting Officer.

- (a) Status of Rates. Following the conference held at the contractor's facility on 2 March 1959, it is the auditor's understanding that the above recommended rates for the period 1 February 1959 to 30 June 1959 are to apply as follows:

\*Contract No. HF-CF-696....Fixed  
 Contract No. BC-450.....Provisional  
 Contract No. OS-500.....Provisional - to cover Project Plant employees on TDY as required. (Does not include regular Field Service).

- (b) General. Because the organization at the Project Plant was more or less fixed by agreement at the March 24 meeting, and because the auditor has based his recommendations on the permanent status and adequacy of the Project Plant Staff, we feel that the contractor should be notified that no significant personnel action is to be initiated without the prior approval of the Contracting Officer.

Audit Liaison Officer  
 Eastern District  
 Auditor General

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